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PROSPECTUS**GAF Corporation**

650,000 Shares

Common Stock

(Par Value \$1 Per Share)

REC'D - S.E.C.

MAY 7 1974

MAY 30 1974

Plan for the Sale of Restricted and Unrestricted Common Stock to Employees Who Perform Executive, Administrative or Supervisory Functions (the "Stock Purchase Plan").

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

GAF Corporation (the "Company") is offering by this Prospectus a maximum of 650,000 shares of its Common Stock to those key employees of the Company and its subsidiaries who may from time to time be designated as eligible to purchase shares pursuant to the Stock Purchase Plan of the Company described in this Prospectus. This offer is made at the price and on the terms and conditions contained in a letter agreement which will be entered into by the Company and the offeree at the time an offer is made.

This Prospectus is also applicable to resales or offers, if any, of the shares covered by the Plan by purchasers or their transferees in the event that it might be deemed, the Company not so conceding, that any purchaser or his transferee may be an underwriter as defined in the Securities Act of 1933, as amended, with respect to any such shares as may be purchased by him and in the event that he may effectuate sales of such stock under circumstances requiring a prospectus.

In the event that any of the shares covered by the Plan are reacquired by the Company from purchasers pursuant to the terms thereof, this Prospectus is also applicable to offers or sales, if any, by the Company to the public of such shares on the New York Stock Exchange at the then current market prices.

The Common Stock of the Company is listed on the New York Stock Exchange. The additional 650,000 shares of Common Stock as to which this Prospectus relates have also been listed on the New York Stock Exchange, subject to official notice of issuance.

No person has been authorized by the Company to give any information or to make any representations not contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been so authorized. This Prospectus does not constitute an offer of Common Stock in any State or other jurisdiction to any person to whom it is unlawful to make such offer in such State or other jurisdiction.

The date of this Prospectus is April 30, 1974

The Company has filed a Registration Statement in respect of the Common Stock to which this Prospectus relates with the Securities and Exchange Commission, Washington, D. C. 20549 under the Securities Act of 1933, as amended. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The information so omitted may be obtained in the Commission's principal office in Washington, D. C. upon payment of the fees prescribed by the Commission.

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The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information concerning its directors and officers, their remuneration and options granted to them, its principal holders of securities and any material interests of such persons in transactions with it, as of particular dates, is set forth in proxy statements distributed to its shareholders and filed with the Commission. Such reports, proxy statements and other information can be inspected at the principal office of the Commission at 500 North Capitol Street, N.W., Washington, D. C., and copies of such material can be obtained from the Commission at prescribed rates. The Company's Common Stock, par value \$1 per share, is listed on the New York Stock Exchange, where reports, proxy material and other information concerning the Company also can be inspected.

Except where otherwise indicated, this Prospectus speaks as of its date of issue. Statements contained in this Prospectus as to the contents of any document referred to are not necessarily complete, and in each instance reference is made to the copy of the document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by this reference.

#### **GENERAL**

The Company was incorporated in Delaware in 1929 as American I.G. Chemical Corporation and changed its name to General Aniline & Film Corporation in 1939 and to GAF Corporation in 1968. References to the Company, unless the context otherwise requires, include GAF Corporation and its consolidated subsidiaries.

In 1942 over 90% of the Company's then outstanding stock was vested by the Federal Government under the Trading with the Enemy Act. After recapitalization of the Company's stock in 1964, the stock owned by the Federal Government was sold in a public offering in March 1965.

Since 1965, the Company has made a number of acquisitions pursuant to which it became engaged in the manufacturing, mining, distributing and selling of various building materials, resilient flooring and industrial products and expanded the scope of its traditional chemical, photo products and business systems operations.

The principal executive offices of the Company are located at 140 West 51st Street, New York, New York 10020, telephone number (212) 582-7600.

#### **USE OF PROCEEDS**

The net proceeds from the sale by the Company, from time to time, of the Common Stock will be added to the general funds of the Company.

**GAF CORPORATION  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME**

The following five-year Consolidated Statement of Income has been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion included elsewhere in this Prospectus. This statement should be read in conjunction with the other consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

	Year Ended December 31,				
	1973	1972	1971	1970	1969
	Dollars in Thousands Except Per Share Amounts				
Net Sales (Note B) .....	\$848,836	\$768,460	\$683,762	\$583,482	\$592,066
Costs and Expenses					
Cost of products sold (Note B) .....	594,380	535,395	477,236	419,844	417,302
Distribution and selling (Note B) .....	119,274	108,181	96,698	88,793	87,516
Advertising .....	20,668	18,659	15,518	11,513	13,756
Research and development (Note 1) .....	14,420	14,113	12,649	12,656	13,261
Administrative and general (Note B) .....	35,441	33,989	30,720	22,245	20,667
Interest (Note D) .....	12,068	10,237	10,359	11,641	10,712
Operating loss of discontinued operations (Note B) .....	—	—	4,343	2,644	976
Total Costs and Expenses .....	799,251	720,574	647,523	569,336	564,190
Other Income (Charges)					
Gain on reacquisition of 5% Convertible Notes (Note G) .....	6,359	—	—	—	—
Phase-out of Linden dyestuff and pigment operations (Note F) .....	(5,942)	—	—	—	—
Other income—net (Notes A and 2) .....	2,000	2,463	1,403	1,436	1,872
Total Other Income—Net .....	2,417	2,463	1,403	1,436	1,872
Profit Before Income Taxes and Extraordinary Items ..	52,052	50,349	37,642	15,582	29,748
Income Taxes (Notes C, 1 and 6)					
State .....	2,559	2,144	509	185	648
United States—current .....	16,747	14,057	10,167	539	5,331
United States—deferred .....	828	6,023	4,531	4,890	5,375
United States investment tax credit .....	(1,399)	(1,521)	(1,139)	—	—
Amortization of deferred United States investment tax credit arising prior to 1971 .....	(591)	(608)	(689)	(690)	(673)
Deferred investment tax credit .....	—	—	—	123	2,820
Foreign .....	4,984	2,548	2,356	2,142	1,005
Total Income Taxes .....	23,128	22,643	15,735	7,189	14,506
Income Before Extraordinary Items .....	28,924	27,706	21,907	8,393	15,242
Extraordinary Items (Note B) .....	—	—	(8,433)	6,300	(4,174)
Net Income (Notes C and E) .....	\$ 28,924	\$ 27,706	\$ 13,474	\$ 14,693	\$ 11,068
Earnings Applicable to Common Stock					
Net Income .....	\$ 28,924	\$ 27,706	\$ 13,474	\$ 14,693	\$ 11,068
Less Preferred Stock Dividend Requirements .....	3,726	3,759	3,802	3,795	3,793
Earnings Applicable to Common Stock .....	\$ 25,198	\$ 23,947	\$ 9,672	\$ 10,898	\$ 7,275
Primary Earnings per Common Share (Note 1)					
Income before extraordinary items .....	\$1.85	\$1.75	\$1.33	\$ .34	\$ .85
Extraordinary items .....	—	—	(.62)	.46	(.31)
Net income .....	\$1.85	\$1.75	\$ .71	\$ .80	\$ .54
Fully Diluted Earnings per Common Share (Note 1)					
Income before extraordinary items .....	\$1.58	\$1.49	\$1.19	\$ .38	\$ .83
Extraordinary items .....	—	—	—	.41	—
Net income .....	\$1.58	\$1.49	—	\$ .79	—
Cash Dividends Declared					
Per Preferred Share .....	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20
Per Common Share .....	\$ .42	\$ .40	\$ .40	\$ .40	\$ .40
Weighted Average Number of Shares of Common Stock Outstanding (in thousands) .....	13,631	13,627	13,609	13,594	13,499

\* Figure omitted because not dilutive.

Numerical note references are to Notes to Consolidated Financial Statements included elsewhere in this Prospectus.

(Notes to Consolidated Statement of Income on following page)

NOTE A.

The Company changed in 1971 to the equity method of accounting for an investment in a 49%-owned company, Chemical Developments of Canada, Limited (CDCL). The Company's equity in the earnings of CDCL, included in other income, amounted to \$191,000, \$240,000 and \$146,000 for the years ended November 30, 1973, and 1972 and the eleven months ended November 30, 1971, respectively. See Note 3 of Notes to Consolidated Financial Statements for further information.

NOTE B:

Extraordinary credits (charges) consist of the following (See Note F):

Year ended December 31, 1969:

Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated applicable United States income tax benefits of \$3,331,000 ..	<u>\$ (4,174,000)</u>
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Year ended December 31, 1970:

Net gain on sale of Texas Amiben production facilities, abandonment of related production facilities, and renegotiation of the Amiben supply contract, less estimated applicable United States income taxes of \$1,044,000 .....	\$ 2,377,000
Net gain on sale of headquarters of English subsidiary, less estimated applicable foreign income taxes of \$143,000 .....	<u>3,923,000</u>
Total .....	<u>\$ 6,300,000</u>

Year ended December 31, 1971:

Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated reduction of state and local income taxes of \$477,000 ....	<u>\$ (18,975,000)</u>
Less estimated credits (provision) for United States income taxes and investment tax credit:	
Current .....	716,000
Deferred .....	8,570,000
Excess of investment tax credit recapture over unamortized deferred investment tax credit of \$804,000 .....	<u>(13,000)</u>
Total .....	<u>9,273,000</u>
Estimated net loss .....	<u>(9,702,000)</u>
Other items—net (principally reversal of the excess portion of the 1969 provision for loss on disposal of facilities) .....	<u>277,000</u>
Total .....	<u>(9,425,000)</u>
Net gain on translation of foreign currencies (Notes 1 and 2) .....	<u>992,000</u>
Total .....	<u>\$ (8,433,000)</u>

The Company's chlorine-caustic operations were discontinued in September 1971, the ethylene oxide and Calsilite® operations were discontinued in November 1971, and the related production facilities were disposed of in 1972. The estimated net loss and related costs resulting from the proposed disposal of these facilities and an unused quarry, less a gain on the 1971 sale of certain woodlands, amounted to \$9,702,000 as shown in the above summary. The sale of the facilities in 1972 resulted in a loss which was \$20,000 greater than anticipated. Such loss is included in costs and expenses in the 1972 Statement of Consolidated Income.

The following summarizes the operating results of the consolidated operations:

	Year Ended December 31		
	1971	1972	1973
(Dollars in thousands)			
Net sales	\$11,296	\$12,224	\$14,188
Cost of products sold	8,021	8,144	11,503
Interest, Federal Reserve	155	170	191
Other	1,000	2,000	12,194
Operating loss	\$4,945	\$2,644	\$976

The company reports its operations on the basis of its present accounting wherein the various lines of business are segregated into the assignment of each these items of assets and liabilities which make up a company's assets and liabilities. Accordingly, the operating results will show the effect of the various lines of business and the effect of the various lines of business on the company's operating results. The effect of the various lines of business on the company's operating results is shown in the following table:

Year 1971

A change in the method of accounting for the investment in 1971 increased income before Extraordinary Items and Net Income by \$1,000.

	Year Ended December 31		
	1971	1972	1973
Income before extraordinary items and net income	\$1,141,111	\$1,251,000	\$1,868,000
Primary Earnings per Common Share	18	20	28
Fully Diluted Earnings per Common Share	16	17	25

See Note 1 to Notes to Financial Statements for further information.

Year 1972

Interest on long-term debt

	Year ended December 31				
	1971	1972	1973	1974	1975
(Dollars in thousands)					
Interest on Long-Term Debt	\$ 5,240	\$ 7,100	\$ 8,210	\$ 9,400	\$ 9,500
Amortization of Debt Discount and Expense	—	—	—	—	—
Other Interest	1,100	1,400	1,400	1,400	1,400
Total	\$12,096	\$10,200	\$10,620	\$10,800	\$10,712

**Note E:**

Changes in actuarial assumptions and the method of determining pension costs in each of the years 1970 to 1972, as recommended by the Company's consulting actuary, increased Income Before Extraordinary Items and Net Income in the following approximate amounts:

	1972	1971	1970
Income Before Extraordinary Items and Net Income	\$400,000	\$300,000	\$400,000
Primary Earnings per Common Share .....	.03	.02	.03
Fully Diluted Earnings per Common Share .....	.02	.02	.03

There were no changes in actuarial assumptions or in the method of determining pension costs in 1973.

**Note F:**

During 1973, the Company curtailed the dyestuff and pigment operations at its Linden, New Jersey plant, resulting in a charge to income of \$5,942,000 (before tax benefit of \$2,832,000), including a write-off of \$4,992,000 of plant and equipment. This charge has been included in Other Income (Charges) in the above statement, in accordance with Opinion No. 30, issued in 1973 by the Accounting Principles Board. Similar items in 1969, 1970 and 1971 were presented as Extraordinary Items in conformity with the accounting principles then generally accepted. Had Opinion No. 30 been in effect for such earlier years, Net Income for those years would have been the same, but Income Before Extraordinary Items would have been increased (decreased) in the following approximate amounts:

	1971	1970	1969
Income Before Extraordinary Items (Note B) ..	\$(9,425,000)	\$6,300,000	\$(4,174,000)
Primary Earnings per Common Share .....	(.69)	.46	(.31)
Fully Diluted Earnings per Common Share .....	*	.41	*

\* Figure omitted because not dilutive.

**Note G:**

During 1973, the Company purchased \$23,200,000 principal amount of its outstanding 5% Convertible Subordinated Notes due April 1, 1994 at discounts which resulted in profit of \$6,359,000 (before tax provision of \$3,257,000).

The increase in income for 1973 was attributable to a substantial increase in profits from international and export operations which offset a decline in profits from domestic operations. Sales increases were achieved in both domestic and foreign operations. Domestic profits were reduced primarily due to (i) unfavorable operating results in resilient flooring, particularly with regard to floor tile where sales were lower and results were adversely affected by higher plant and material costs and competitive pricing restrictions, and (ii) the Company's general inability, because of price controls under the Economic Stabilization Program, to increase sufficiently the prices of many of its products (particularly roofing) to offset

increases in the costs of raw materials and feedstocks (see "Description of Business—Economic Stabilization Program"). Offsetting such factors were improved results of international and export operations which benefited principally from increased demand for the Company's products in foreign markets as well as favorable 1973 foreign currency conversion rates.

Except for Building Materials where profits were lower, the Company's five major sales groups (in which export and international operations are consolidated) achieved both improved sales and direct operating profits in 1973 (see "Description of Business" at page 10), including the Chemicals Group before the \$5,942,000 charge to income associated with the phase-out of dyestuff and pigment operations at Linden, New Jersey (see Note F to Consolidated Statement of Income).

The increase in income for 1972 was attributable to an increase in sales and profits in the photo products, building materials and industrial products groups and the elimination of the loss on operations which were discontinued during 1971 (see Note B to the Consolidated Statement of Income). Major improvements in photo products operations were realized in both industrial photo and consumer photo. Industrial photo benefited from increased sales levels, lower raw material prices and improved manufacturing operations. Consumer photo experienced improved sales of film, VIEW-MASTER® products and hard goods, including slide and movie projectors. Strong demand for replacement roofing together with continued strength in housing starts contributed to the increase in building and floor product sales. Industrial products had improved results in most operations, including sound deadening, roofing granule and felt products.

The increase in income before extraordinary items for 1971 was almost exclusively attributable to an increase in sales and profit margins in the areas of building and floor products and photo products. Sales of building and floor products were aided by a substantial increase in housing starts and building products also benefited from strong demand for replacement roofing. Major increases in photo product sales were in consumer photo, particularly film, VIEW-MASTER® products and hard goods, primarily movie and still cameras. Photo product sales were also favorably affected by the acquisition of certain photo finishing plants and the business and assets relating thereto. The increase in administrative and general expenses resulted from expenses of newly acquired operations, a provision for incentive compensation in 1971 where none was earned in 1970, increased legal and professional fees and normal increases in line with the Company's growth.

The reduction in income before extraordinary items for 1970 was attributable in large part to a decline in sales, especially in the areas of photo products and some of the Company's chemical products, caused by the general decline in the national economy. Profits from photo products were further affected by operating problems incurred in introducing new technology and equipment relating to the manufacture of photographic film and paper. The profits of the Company's chemical products group were also affected by (i) difficulties encountered in connection with the expansion of the Company's facility in Linden, New Jersey for the manufacture of chlorine and caustic soda, which caused unanticipated costs and a delay of full utilization of the facility and (ii) reduced purchases during 1970 by the Company's sole customer for Amiben, resulting from such customer having developed an inventory imbalance in such product. (Production of chlorine and caustic soda was discontinued as of September 1971. See Note B to Consolidated Statement of Income.) In addition, the Company implemented a planned reduction in all its inventories. As a result of this inventory reduction program, some chemical and all photo product plants were operated at lower levels, with a consequent effect upon the profitability of such plants.



### THREE MONTH (UNAUDITED) SUMMARY OF FINANCIAL INFORMATION

The following unaudited summary of financial information for the quarters ended April 1, 1973 and March 31, 1974 reflects, in the opinion of the Company, all adjustments considered necessary to present fairly the information shown for the stated quarterly periods:

	(Dollars in Thousands Except Per Share Amounts) First Quarter Ended	
	March 31, 1974 (a)	April 1, 1973 (a)
Net Sales .....	\$215,760	\$192,499
Net Income (b) and (c) .....	5,966	5,735
Net Income applicable to Common Stock after Preferred Stock dividend requirements .....	5,035	4,803
Primary Earnings per Common Share(d) .....	.37	.35
Fully Diluted Earnings per Common Share(d) .....	.33	.31

(a) Interim accounting periods end on Sunday nearest the quarterly month-end.

(b) During the first quarter of 1974, the Company purchased \$15,785,000 principal amount of its outstanding 5% Convertible Subordinated Notes due April 1, 1994 at discounts which resulted in a profit of \$4,634,000 (before tax provision of \$2,363,000).

(c) The Company plans to relocate certain of its staff and administrative activities during 1974 from its leased offices in New York City to a new office building in Wayne, New Jersey. Costs of \$4,433,000 (before tax benefit of \$2,261,000) relating to the relocation were charged to income during the first quarter and it is anticipated that \$1,050,000 (before tax benefit of \$535,500) of similar costs will be charged to income during the second quarter.

(d) See Note 1 of Notes to Consolidated Financial Statements.

### PRICE RANGE OF COMMON STOCK; DIVIDENDS

The Company's Common Stock is listed on the New York Stock Exchange. The table below shows for the indicated periods the high and low sales prices of the Common Stock on the New York Stock Exchange.

The closing sale price of the Common Stock on the New York Stock Exchange on March 18, 1974 was \$10 $\frac{1}{2}$  per share. All price information contained in the table below was obtained from the National Quotation Bureau, Inc.

	Sales Prices			Sales Prices	
	High	Low		High	Low
1969 .....	31 $\frac{1}{8}$	14 $\frac{3}{4}$	1973		
1970 .....	16 $\frac{1}{2}$	7 $\frac{1}{4}$	First Quarter .....	22 $\frac{1}{4}$	14 $\frac{1}{2}$
1971 .....	24 $\frac{1}{2}$	12 $\frac{3}{8}$	Second Quarter .....	15 $\frac{1}{2}$	10 $\frac{1}{2}$
1972			Third Quarter .....	15 $\frac{1}{2}$	10
First Quarter .....	27	22 $\frac{1}{4}$	Fourth Quarter .....	15 $\frac{1}{2}$	8 $\frac{3}{4}$
Second Quarter .....	26 $\frac{3}{4}$	20 $\frac{3}{4}$			
Third Quarter .....	25 $\frac{3}{4}$	20 $\frac{1}{2}$	1974		
Fourth Quarter .....	23 $\frac{1}{4}$	19 $\frac{1}{4}$	First Quarter (to March 18) .....	11 $\frac{1}{2}$	8 $\frac{3}{4}$

Commencing with the third quarter of 1973 the Company increased its quarterly dividend on Common Stock from 10¢ to 11¢ per share. Previously, the Company had paid quarterly dividends of 10¢ per share on its Common Stock since 1965. Future dividends on the Common Stock will necessarily be dependent upon future earnings, the financial needs and condition of the Company and other factors. See "Description of Capital Stock" for information as to certain limitations on the payment of dividends.

### DESCRIPTION OF BUSINESS

The Company is engaged in the manufacture and sale of: (i) chemicals; (ii) photographic products; (iii) reproduction equipment, sensitized papers and forms used in business systems; (iv) building materials; and (v) industrial products.

The following table sets forth for the periods indicated (i) net sales and (ii) direct operating profit of the lines of business of the Company.

The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and expense for which each line of business is directly responsible. The Company's accounting system does not provide for the allocation of interest and other debt expense, the cost of functions that serve more than one line of business, and miscellaneous expense and income items.

	Year Ended December 31,				
	1973	1972	1971	1970	1969
	Dollars in Thousands				
Net Sales					
Chemicals .....	\$172,817	\$156,295	\$145,788	\$142,028	\$151,149
Photo Products .....	219,551	205,348	177,765	137,750	145,282
Business Systems .....	110,639	89,125	80,553	83,904	74,790
Building Materials .....	285,636	263,530	232,981	176,086	175,728
Industrial Products .....	60,243	54,162	46,675	43,714	45,117
Total .....	<u>\$848,886</u>	<u>\$768,460</u>	<u>\$683,762</u>	<u>\$583,482</u>	<u>\$592,066</u>
Direct Operating Profit by Group					
Chemicals .....	\$ 20,960(1)	\$ 20,428	\$ 20,872	\$ 20,884	\$ 24,244
Photo Products .....	11,148	8,882	4,544	(3,115)	6,805
Business Systems .....	4,838	2,280	2,382	4,512	4,406
Building Materials .....	35,810	42,182	39,315	18,383	16,959
Industrial Products .....	11,100	9,822	8,526	8,326	9,173
Total .....	<u>83,856</u>	<u>83,594</u>	<u>75,639</u>	<u>48,990</u>	<u>61,587</u>
Operating Loss of Discontinued Operations .....	—	—	(4,343)	(2,644)	(976)
Unallocated Corporate Expenses —Net .....	<u>(31,804)(2)</u>	<u>(33,245)</u>	<u>(33,654)</u>	<u>(30,764)</u>	<u>(30,863)</u>
Profit Before Income Taxes and Extraordinary Items .....	<u>\$ 52,052</u>	<u>\$ 50,349</u>	<u>\$ 37,642</u>	<u>\$ 15,582</u>	<u>\$ 29,748</u>

(1) Includes \$5,942,000 charge for phase-out of Linden dyestuff and pigment operations. See Note F to Consolidated Statement of Income.

(2) Includes \$6,359,000 gain on reacquisition of 5% Convertible Subordinated Notes. See Note G to Consolidated Statement of Income.

The principal products, sources of supply, market position and recent developments with respect to the Company's five product groups are as follows:

#### **Chemicals**

##### **Products**

The Company's chemical products include the following:

*Dyestuffs and Pigments*—The Company's line of dyestuffs is primarily used in the textile industry and also in the leather and paper industries. Its organic pigments are used for coloring many different products, including rubber, plastics, printing inks, natural and synthetic textiles, paints and lacquers; *Surface-active agents*—Surface-active agents (or surfactants) possess detergent, emulsifying, dispersing and wetting properties and are used in the manufacture and compounding of detergents (primarily industrial), insecticides, pesticides, textiles, paper, leather, rubber, plastics and chemicals and in the production and refining of petroleum and mineral products; *High-Pressure Acetylene Derivatives*—The Company has developed and employs techniques for processing acetylene, a very explosive gas, under high pressure into a wide variety of acetylene derivatives, with uses in the manufacture of plastics, synthetic fibers, cosmetics, electroplating chemicals, pharmaceuticals, solvents and adhesives; *Specialty and Textile Chemicals*—These include bactericides and fungicides, brighteners, leather tanning and finishing agents, textile treating chemicals, flame retardants, ultraviolet absorbers, solvents, carbonyl iron powders and silver salts; *Industrial Organic Chemicals*—These compounds are used in the production of surfactants, dyestuffs, pharmaceuticals, defoliants, herbicides, growth regulators and other agricultural chemicals, plastic stabilizers, electroplating chemicals, and photosensitive and other chemicals; and *Latex Products*—These products include rubber and polymer latices for rug backings, fabric coatings and paper coatings; latex foam backing for drapery fabrics; and latex adhesives for fabric lamination.

The Company's chemical products are sold to users principally by its own sales personnel and, in some cases, by independent distributors.

##### **Raw Materials**

The raw materials used in the production of the Company's chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts which are, in general, standard for the industry. Certain of the Company's raw material requirements, including acetylene, are obtained from single or limited sources pursuant to supply contracts. With respect to acetylene, which is supplied to the Company at two locations by separate sources, were either of the sources to be discontinued the development of alternate sources of supply could involve interruption of production and would probably result in substantially increased costs.

In the past, the Company's sources of raw materials have been stable. In recent months, however, the Company has experienced difficulty in obtaining adequate supplies of certain raw materials. In this connection, the Company has been unable to obtain a sufficient supply of acetylene to meet increased requirements at one of its plant locations. In addition, the Company has been unable to meet increased customer demand for chloramben (also known as Amiben) because of shortages in certain raw materials required for its production. Further, as a result of shortages of styrene monomer and phenol, required for the production of latexes and surfactants, respectively, the Company has been unable

to satisfy customer demand for these products. Finally, the Company has encountered shortages in certain chemicals used to produce dyestuffs, which have been overcome to date.

The shortages described above are primarily the result of the overall petrochemical shortage in the United States and elsewhere. The Company cannot predict the duration or severity of such shortages. Further reductions in supplies of raw materials, which have not occurred to date, could adversely affect the Company's earnings. See "Description of Business—Economic Stabilization Program" for information concerning the exemption of certain petrochemicals from Cost of Living Council control and the elimination of cost justification and prenotification requirements for certain other petrochemicals.

#### **Market Position**

The Company is the sole United States producer of a complete line of high pressure acetylene derivatives, although it competes with foreign manufacturers, only one of whom is an important factor in the domestic market.

In the balance of its chemical business the Company faces competition from many companies, certain of which are substantially larger than the Company and offer a broader range of products. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

#### **Recent Developments**

Since 1962, the Company has been manufacturing a herbicidal product called Amiben for and pursuant to specifications furnished by Amchem Products Inc. ("Amchem"). In 1974 the production capacity for this product was expanded. Amchem owns patents covering Amiben and is the Company's only potential customer for such product. Amiben faces competition from herbicides of other companies and in the event Amchem's requirements for Amiben should decline substantially, such decline would have an adverse effect on the Company's earnings. Demand for Amiben to date in 1974 has exceeded such demand for the same period in the prior year.

In 1973, the Company phased-out its dyestuff and pigment manufacturing operation in Linden, New Jersey. This decision was caused by severe competition from abroad and certain other economic factors. The Company has transferred certain dyestuff and pigment operations from Linden to its Rensselaer, New York plant where it will also continue to make certain other types of dyestuffs and pigments.

See Note B to Consolidated Statement of Income for effect of discontinuance of chlorine-caustic and ethylene oxide operations and Note F to Consolidated Statement of Income for effect of discontinuance of the Linden dyestuff and pigment operations.

#### **Building Materials**

##### **Products**

The building materials portion of the Company's business includes the manufacture of the following products: asphalt shingles; built-up roofing, consisting of organic and asbestos-based felts; asphalt roof coatings and plastic cements; organic and asbestos dry felt produced primarily for use by the Company's roofing and flooring plants; mineral fiber roof shingles and siding; mineral fiber building

board; mineral fiber canal bulkhead designed and processed to prevent land erosion by either salt or fresh waters; fiberglass insulation and vinyl siding (both purchased for resale); and asphalt and vinyl asbestos floor tiles, adhesives, cove bases and vinyl sheet floor coverings.

The Company sells its products through its own salesmen to wholesalers, retailers, applicators, contractors and builders. Such sales are mostly limited, in the case of building materials other than floor tiles and sheet vinyl, to states east of the Rocky Mountains. Its products are also supplied, on a bid basis, to United States and State agencies.

#### **Raw Materials**

A major portion of the raw materials used for the manufacture of building materials is purchased from a large number of outside sources and the balance is produced by the Company, including mineral granules, which are used to surface asphalt roofing products.

Raw material ingredients for dry felt, which in the past have been in good supply, are rags, waste paper, pulpwood and wood flour, purchased in the open market at prices which are subject to fluctuation. Asphalt is purchased from major oil refineries and independent operators, in one case pursuant to a long term supply contract. The Company purchases fiberglass material for insulation from one source which it considers to be stable.

In recent months the Company has experienced difficulty in obtaining certain raw materials used in the manufacture of building materials. These products include the following: asphalt and dry felt production stock for roofing products; and polyvinyl chloride resins, titanium dioxide, plasticizers, solvents and stabilizers for resilient flooring. Such shortages, which in at least one of the Company's plants have resulted in a curtailment of production, are attributable in part to the overall petrochemical shortage mentioned above.

#### **Market Position**

The building materials industry is highly competitive. The Company believes that it is one of the leading producers of asphalt roof shingles and built-up roofing, mineral fiber roof and siding shingles, mineral fiber flat sheets, canal bulkhead and vinyl floor coverings.

#### **Recent Developments**

As a result of the settlement in May 1970 of a lawsuit commenced in 1966 against The Ruberoid Co., the Company entered into a license agreement with Congoleum Industries, Inc. whereby the Company was licensed to manufacture and sell foamed vinyl flooring which uses a chemical embossing process. In exchange for such license, the Company agreed to pay a royalty equal to 5% of the net sales of such product during the term of the Agreement, which has a stated term ending on December 20, 1983, and, in any event, the Company is required to pay a minimum royalty of \$125,000 a year through 1983, which amount is applied against royalties payable in each such year. Royalties paid under this agreement for 1972 and 1973 amounted to approximately \$1,023,000 and \$905,000, respectively.

In December 1972, the Company completed the construction of a new plant in Mount Vernon, Indiana for the manufacture of asphalt roofing shingles and built-up roofing materials. The plant provides approximately 80,000 square feet of manufacturing space on a 36 acre site and increased the Company's production capacity for these products by 6%.

The Company is in the process of completing the installation of a vinyl siding facility at its plant in Gloucester City, New Jersey for the manufacture of exterior siding for sale in the northeastern and north-central United States. Current shortages of polyvinyl chloride resin and titanium dioxide will probably delay start-up of the facility and may cause the new facility to operate at less than capacity. The Company also plans to continue to purchase for resale vinyl siding procured from its existing supplier.

Roofing products constitute a major portion of total sales of the building products group. It is believed that a majority of roofing products sold by the Company are used in re-roofing of existing structures. Housing starts were at a level of approximately 2,050,000 units in 1973, a decline of 13.7% from the record high of approximately 2,375,000 units in 1972, but sales by the Company of roofing products increased in 1973 over the prior year. It is anticipated that housing starts will decline further in 1974 as a result of high interest rates, unavailability of funds, uncertainty in the economy, materials shortages, rising construction and land costs, environmental restrictions and possible effects of the energy shortage, among other factors. Despite the general decline in housing starts in recent months, sales of the Company's roofing products have been greater in 1974 to date than in the same period during the prior year.

#### **Business Systems**

##### **Products**

The business systems portion of the Company's operations consists primarily of the production and sale of diazo reproduction equipment, sensitized reproduction materials used in such equipment, and business forms. Other products include micrographic equipment and supplies, sensitized paper and toner for electrostatic office copiers and drafting office supplies.

The diazo reproduction process, while suitable for copying engineering and architectural drawings because of its capacity to make larger copies, is limited in general applicability by the need for a translucent master sheet printed only on one side.

The business systems products are sold in part directly by the Company's own employees and in part through independent dealers. The machines sold by the Company are serviced in part by the Company's own employees and in part by employees of such independent dealers, who are trained by the Company.

##### **Raw Materials and Supplies**

The raw materials and supplies used in the manufacture of these products are purchased from several sources and, although in some cases parts are built to the Company's specifications, alternate sources for such parts are available. In recent months there has been a shortage in certain materials used in the manufacture of business system products. Such materials include paper for business forms and sensitized products, specialty chemicals used in coating sensitized products and various electrical components. These shortages have not, to date, resulted in any appreciable production curtailment.

##### **Market Position**

The Company believes that it is one of the two leading domestic producers of diazo reproduction equipment and diazo papers, plastic films and other diazo coated products.

The field of business forms produced pursuant to customer specifications is dominated by another company. The business forms products of the Company are sold principally in the northern part of the United States east of the Mississippi River.

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#### **Recent Developments**

In January 1974, the Company acquired the business and assets of Mohawk Industrial Laboratories, Inc. a small company engaged in the manufacture and marketing of a random access information retrieval system using standard size data processing cards.

The Company has established several retail stores under the "printExpress<sup>SM</sup>" service mark, and is test marketing the offering of printing and copying services and the sale of drafting and art supplies.

Early in 1974, the Company discontinued the manufacture and sale of electrostatic office copying machines.

#### **Photo Products**

##### **Products**

The photo products sold by the Company consist of the following: *Consumer Photo Products*—including color and black-and-white film (print film, slide film and movie film), still and motion picture cameras and projectors, slide viewers and scenic slide assortments, and VIEW-MASTER<sup>®</sup> and TALKING VIEW-MASTER<sup>®</sup> stereo reels and viewers; *X-ray Products*—including X-ray film and developing chemicals for medical, dental and industrial use; *Graphic Arts Products*—including film, film bases, and chemicals used in photolithography, rotogravure printing, offset printing, photographic type-setting and photo-engraving; *Industrial Products*—including film and paper employed in oscillograph recording, mapping and tracing; and *Professional Photography Products*—including black-and-white and color still film, color motion picture film, and photographic papers. Professional photographic applications include press and industrial photography and professional portraiture.

The Company also offers consumer photo finishing services, and in this connection, in March 1971, acquired the thirteen photo finishing plants and the business and assets relating thereto of Cadence Industries Corporation, for a cash purchase price of approximately \$15,200,000 and the assumption of certain liabilities in connection with such business. Such plants, business and assets are operated by the Photo Service Division of the Company.

Distribution of the Company's consumer and professional photo products is made through a field sales force consisting in part of the Company's own employees and in part of independent sales representatives or distributors, primarily to mass merchandisers and also to photo specialty shops. The Company's graphic and X-ray photo products are sold in part to distributors, and in part, along with other industrial photo products, directly to users.

##### **Supplies**

The Company purchases from several sources the raw materials and certain components (some of which are manufactured pursuant to its specifications), for the film, paper, slide and motion picture projectors and viewers manufactured by it. The price of silver, which is one of the more important raw materials used in the manufacture of film and photographic paper, has increased substantially in 1972, 1973 and, to date, in 1974. Silver cost to the Company has increased from an average of \$1.50 per troy ounce in 1972 to \$2.30 per troy ounce in 1973 and was selling on December 31, 1973 at \$3.26 per troy ounce and on March 19, 1974 at \$5.71 per troy ounce. Competitive factors presently limit the Company's ability to implement price increases related to this increased cost. Accordingly, the increased cost of silver will have a material adverse effect on the earnings of the Company during 1974 unless substantial price increases can be effected or the price of silver sufficiently declines.

The still and motion picture cameras sold by the Company are manufactured specially for the Company by companies located in Japan and Hong Kong. Acetate film base used by the Company is manufactured

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by it. Other film base and raw paper used by the Company are purchased from domestic and foreign sources. In recent months, deliveries of polyester base for coating of film products have been delayed intermittently and certain photographic chemical ingredients have been in short supply causing some production delays.

#### **Market Position**

In general, the Company offers a broad range of photographic products, which is, however, considerably narrower than that offered by Eastman Kodak Company ("Eastman"), the dominant company in the field. In many areas of the photographic industry in the United States, Eastman is dominant, and the Company has only a small share. In addition, there is competition from foreign sources.

The Company believes it is the leading producer of stereo viewers and reels.

#### **Recent Developments**

The Company's film, under an agreement which has been extended to 1976, has been named the official film of Disneyland and Walt Disney World where the Company has established Photo Exhibit Centers and where the Company's photo products are sold through more than 50 retail photo outlets. Similar arrangements have been made at certain other amusement centers, including Sea World and Jungle Habitat.

Late in 1972, the Company introduced pocket-sized instant loading cameras manufactured specifically for the Company. The consumer acceptance of such cameras has been satisfactory. The Company has also introduced print film for use in such cameras which can be developed with the same chemicals currently used to develop the Company's print film employed in standard size instant loading cameras of the Company. The Company's new print film is currently incompatible with the film developing processes required for Eastman's new film described below.

Early in 1972 Eastman introduced pocket-sized instant loading cameras and a new print film for such cameras requiring different developing chemicals. Eastman is currently marketing new film of the same type in place of the print film formerly offered for standard size instant loading cameras. The introduction of such new film, and the conversion by photo finishers to the different chemicals involved in developing such film, may have the effect of reducing the number of photo finishers who will retain the capability of developing the Company's print film and may thereby reduce the demand for such film. Regardless of this development, the Company's photo finishing plants will have the capacity to develop and process both the Company's film and Eastman's film. The Company is engaged in a research and development program to produce print film which can be developed by the same chemicals used to develop the new print film introduced by Eastman. There can be no assurance that the Company will be successful in this program.

On April 30, 1973, the Company filed an antitrust action against Eastman in the U. S. District Court for the Southern District of New York seeking treble damages in an unstated amount and certain equitable relief, including the division of Eastman into ten separate and independent businesses, the dedication to the public of the trademark "Kodak" and the license and disclosure of all Eastman's present and future photographic patents and know-how.

The Company stated in its Complaint that it is the last remaining domestic competitor to Eastman in the manufacture of conventional amateur photographic film. The Company alleged that Eastman has forestalled innovation in the development of products incompatible with those of Eastman, and has made numerous changes in its products in order to make the products of its competitors unmarketable.

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The Complaint further alleged that Eastman has, in many areas of the photographic industry, monopolized the production and sale of photographic supplies, restrained trade, foreclosed markets, made illegal acquisitions and engaged in various other illegal acts and practices.

Eastman filed an Answer on July 30, 1973 denying the material allegations of the Complaint, and the case is presently in the pre-trial discovery stage.

A favorable decision in the suit could have a favorable effect upon the Company's photographic business whereas an adverse decision could result in the continuation of the present adverse competitive position of the Company and have significant implications concerning the future of the Company as a manufacturer of consumer, industrial and professional film products. The outcome of the litigation cannot be predicted at this time.

In September 1973 the Company sold the inventories and certain other assets of Lenco Photo Products, Inc. ("Lenco") to Interphoto Corporation and appointed Interphoto as a distributor in the United States of certain lines of the Company's slide projectors and accessories. Lenco was a separate marketing component of the Photo Products Group, distributing certain slide projectors manufactured by the Company and certain other photographic supplies and equipment manufactured by others.

#### **Industrial Products**

##### **Products**

The Company's industrial products include automotive and industrial sound deadening products; mineral roofing granules; asbestos fibers; asbestos paper and wallboard; wool pressed felt; FEUTRON® synthetic fiber felts; papermakers felts and GAFLO® filter products.

The industrial products of the Company are sold primarily by the Company's own employees and, to a lesser degree, through independent distributors.

##### **Raw Materials and Supplies**

Basic raw materials and supplies used in the manufacture of the Company's industrial products have in the past been in good supply although prices are subject to fluctuation. In recent months there has been a shortage of certain of such materials and supplies, including viscose and polyester fibers used in the wool and synthetic felt lines. These shortages have not, to date, resulted in any appreciable production curtailment.

##### **Market Position**

The market for industrial products is highly competitive. The Company believes that it is a major supplier in the automotive sound deadening, wool and synthetic fiber felts and roofing granules industries. Except as indicated, the Company believes that the great size and diversified nature of the industrial products industry makes it impossible to give a meaningful estimate of the relative position of the Company in this field.

##### **International Operations**

The Company's international operations, which are consolidated in the net sales and income for the Company's five lines of business contained herein, include foreign distribution of the products manufactured by the Company in the United States and abroad (principally its chemical, flooring, photo and business systems products), and by other suppliers. These operations are conducted primarily in Western Europe, Canada and Australia. For 1973, the Company's international operations, including export

sales from domestic operations, accounted for approximately 16% of its net sales as compared with 12% for the prior year.

In general, during 1973 the ratio of profit to sales in international operations exceeded such ratio in domestic operations, and international operating profits in 1973 were almost double those of 1972.

#### **Backlog**

The Company does not consider backlog to be a material factor in any of its five lines of business.

#### **Research and Development**

In 1973, the Company spent approximately \$14,420,000 in research and development in connection with the discovery and development of new products and processes, the improvement and refinement of existing products and processes, and the development of new uses for existing products. During 1973 about 53% of the Company's research was applied research directed toward development of present products and processes and about 47% was developmental research on new products and processes. At December 31, 1973, 285 professional employees were engaged in Company research and development. The Company does not classify such employees in the usual three types of research and development undertaken.

During 1972 the Company relocated several research and development departments to Wayne, New Jersey. See "Facilities" for further details concerning the Wayne site.

#### **Employees**

At December 31, 1973 the Company employed 22,544 people. At such date approximately 9,450 employees in the United States and Canada were represented by union labor contracts which are effective, in most cases, for one or two year periods. Employee relations at all the Company's plants have been generally satisfactory. However in 1973 a work stoppage involving contract negotiations occurred at the Vails Gate, New York floor tile plant lasting one month, and a Contract Action took place at the Tampa, Florida building products plant lasting two and one-half months during which manufacturing and shipping operations were continued. In 1972 the Company experienced a 56 day strike at its O'Hare, Illinois sheet vinyl plant following contract termination and in 1971 it experienced a 60 day work stoppage at its Rensselaer, New York chemical plant arising out of contract renewal negotiations and in 1970, it experienced two extended work stoppages, a 77 day strike at the Mobile, Alabama building products plant and a 54 day shutdown in the Yuma, Arizona building products plant. The Company has in effect various benefit plans which form a comprehensive employee security program. These include the Company's Retirement Plan and group insurance arrangements covering life, accident, hospital, surgical and medical insurance. The Company and its stock owners bear the respective contributions to the costs of the insurance arrangements. See Note 7 and 8 of the Notes to the Consolidated Financial Statements for further details concerning the Retirement Plan.

#### **Patents**

The Company owns approximately 1,200 unexpired United States patents, approximately 1,700 foreign patents and approximately 4,000 domestic and foreign trademarks, and is licensed under many other United States and foreign patents, no one of which is material as determined by application and material to the conduct of the Company's business. The Company is not aware of any patent owned by the Company from Crompton Industries, Inc. and affiliates, or of any patent owned by Crompton Industries, Inc. and affiliates.

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development and information systems development, respectively, and a group of patents on photographic products covered by claims from Eastman.

#### **Economic Stabilization Program**

Under the authority of the Economic Stabilization Act of 1970, effective August 15, 1971, prices, salaries and wages were frozen at their then existing levels for a period of 90 days ending November 13, 1971. Under Phase II of the Economic Stabilization Program, effective November 14, 1971, limited increases in prices, salaries and wages were permitted if they met specified guidelines. On January 11, 1972, Phase III of the program went into effect and replaced most then existing controls with voluntary guidelines concerning limitations on prices, salaries and wages. On June 13, 1973, a 60-day freeze on salaries was imposed and on August 13, 1973, Phase IV regulations issued by the Cost of Living Council took effect. Under Phase IV of the program, the Company may increase the price of its products to reflect a dollar-for-dollar increase in available cost increases, after adjustment to reflect productivity gains and cost-price production, to the Cost of Living Council. The Company has implemented a number of price increases which it has preannounced. In addition, under Phase IV the Company must comply with profit margin regulations, which are based on a historical base period, but which are not expected to have any material limiting effect on the Company during 1974. The Program has, and will have the effect of restricting price increases in many segments of the Company's business.

By actions taken on January 30, 1974 and March 13, 1974, the Cost of Living Council exempted most petrochemical products from Phase IV price regulations and eliminated price-cost and cost-margin requirements, but retained corporate profit margin restraints (i.e., made such products profit-controlled), for certain other petrochemical products. As a result, almost all petrochemicals purchased by the Company have become exempt from controls or are profit-controlled. It is anticipated that supplies of such products may become more available in the future at higher prices. Almost all of the Company's chemical products manufactured and sold by the Company have become profit-controlled by the sweeping actions of the Cost of Living Council. The Company has instituted a number of price increases to bring such removal of restriction on chemical products. On March 15, 1974, the Cost of Living Council also exempted petrochemicaling laboratories from controls. The Cost of Living Council has indicated that it may, from time to time, eliminate various Phase IV restraints with regard to additional products.

On August 22, 1973, the Cost of Living Council revoked an order of July 3, 1973 requiring the Company to reduce prices and to make returns to correct an alleged violation of the Economic Stabilization Act of 1970. The Cost of Living Council determined that no violation of such Act occurred based on the Company's revised Phase II profit margin computations.

#### **Environmental Control**

As a result of the nature of many of the Company's operations, environmental standards promulgated by various regulatory bodies, many of which regulatory bodies have been recently established by state or local laws or regulations, are having or will have a substantial impact upon the Company. In some cases, the Company has obtained variances which are conditioned upon compliance at some future date and in other cases, it is seeking to work out similar arrangements. In addition, Federal statutes dealing with the environment, including the Federal Water Pollution Control Act and the Clean Air Act, and various state laws require discharges into navigable waters, and the National Air Quality

Standards Act which regulates air quality and the emission of pollutants, have affected and will increasingly affect the Company. The Company is undertaking additional anti-pollution activities which will undoubtedly be increased in response both to the Company's continuing efforts to deal with environmental problems and to increased Federal, state and local regulation in this area.

In addition, the Federal Occupational Safety and Health Administration ("OSHA") has promulgated numerous regulations dealing with various aspects of the Company's operations, including regulations of permissible levels of asbestos dust in plants. The OSHA regulations, applicable to asbestos processing and fabricating facilities, established an occupational work atmosphere of five fibers of asbestos per cubic centimeter of air, to be reduced to an atmosphere of two fibers per cubic centimeter by July 1, 1976. The Company believes that its manufacturing operations are in substantial compliance with the five-fiber standard and the Company believes its facilities will comply with the two-fiber standard by July 1, 1976.

While the exact nature of the environmental control problems which the Company will encounter in the future cannot be predicted, substantial additional capital expenditures, the amount of which cannot be estimated at this time, as well as increased operating expenses, will be occasioned by the Company's continuing effort to deal with environmental problems arising from its activities and to comply with the statutes and regulations referred to above. However, the Company believes that compliance with environmental protection requirements will not adversely affect its competitive position in the industries in which engaged. Pollution control requirements resulted in capital expenditures of approximately \$4,750,000 in 1973 and \$5,800,000 in 1972. The Company expects to invest an additional amount of approximately \$24,000,000 in pollution abatement facilities by the end of 1976, although no assurance can be given that this amount will not be larger in view of the foregoing factors.

On August 30, 1971 the Company entered into an agreement with Rensselaer County Sewer District No. 1 for the construction, operation and maintenance of facilities to intercept and treat the industrial wastes discharged from the Company's Rensselaer manufacturing plant. The Company's obligation for the first year of operation, which is anticipated to commence in late 1975, is presently estimated at between \$260,000 and \$280,000. Of this sum approximately \$100,000 is estimated to be attributable to debt service and the balance to operating and maintenance costs. It is anticipated that operating and maintenance costs will increase in the future, particularly with regard to power and chemicals required in the operation of the treatment plant. It is expected that the debt service obligation will continue for approximately 27 years after commencement. The Company will be obligated to pay a portion of the operating and maintenance costs through June 30, 1990, even though it may cease to use the facility prior to such time.

On September 26, 1973, the City of Calvert City, Kentucky sold a Pollution Control Revenue Bond in the principal amount of \$2,700,000, the proceeds of which are being used by the Company to construct pollution control facilities at its Calvert City, Kentucky chemical plant. The Company has a ten year lease and option to purchase the facility from the City of Calvert City with the bond being payable from the revenues derived from such lease. The Company is presently considering the use of similar types of financing for pollution control facilities at three other locations with an estimated aggregate cost of \$8,500,000.

#### **Energy Shortage**

The recent reductions and embargoes on shipments of crude oil by Arab states have compounded energy and petroleum product shortages which already existed in the United States and many other

countries in which the Company operates. These shortages, and the rapidly escalating costs of petroleum products related thereto, are expected to have an adverse effect on the economies of the countries involved and may have an adverse effect on the operations of the Company in such countries. However, the ultimate effect thereof on the Company cannot be determined, although, as noted above, the Company's difficulty in obtaining certain of the materials used in the production of its products is attributable in part to such shortages. On March 18, 1974 it was reported that seven Arab states agreed to remove the embargo on the sale of oil to the United States and most other countries. While it is anticipated that the lifting of the embargo will make additional supplies of petroleum products available, it cannot be predicted what production levels will be established and what pricing levels will be adopted from time to time or if the embargo will be subsequently reimposed.

#### Facilities

The Company's major plants are as follows:

*Chemicals:* Shallowford, Tennessee; Calvert City, Kentucky; Dalton, Georgia; Linden, New Jersey; Rensselaer, New York; Texas City, Texas; and Glens Falls, New York.

*Photographic Products:* Binghamton, New York; Philadelphia, Pennsylvania; Los Angeles, California; Sint-Niklaas, Belgium; and Progress, Oregon.

*Business Systems:* Vestal, New York; Johnson City, New York; Vernon, New York; Colnbrook, England; Delft, The Netherlands; Shelby, Ohio; and Sydney, Australia.

*Building Products:* Mobile, Alabama; Long Beach, California; Denver, Colorado; Tampa, Florida; Savannah, Georgia; Joliet, Illinois; Mount Vernon, Indiana; Baltimore, Maryland; Millis, Massachusetts; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; South Bound Brook, New Jersey; Vails Gate, New York; Erie and Whitehall, Pennsylvania; and Dallas and Houston, Texas.

*Industrial Products:* Annapolis, Missouri; Glenville, Connecticut; Joliet, Illinois; Franklin, Massachusetts; Warren, Michigan; Bound Brook, New Jersey; Newburgh, New York; Charmian, Pennsylvania; and Westerly, Rhode Island. The Company owns an asbestos mine in Hyde Park, Vermont and rock quarries in Annapolis, Missouri; Kremlin, Wisconsin; Fairmount, Georgia and Charmian, Pennsylvania.

With the exception of the plants located in Warren, Michigan and Annapolis, Missouri (building only), which plants are leased to the Company, the above mentioned properties are owned by the Company in fee. That portion of the plant (building and equipment only) at Texas City, Texas which produces Amiben is owned by Amchem.

The Company also owns or leases many other smaller plants, research laboratories and sales and distribution offices in the United States and elsewhere.

The Company believes that in general these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained and are in good condition. Each plant has adequate transportation facilities for both raw materials and finished products.

The executive offices of the Company at 140 West 51st Street, and substantially all of the administrative offices of each division, are housed in approximately 245,000 square feet of leased space at 140 West 51st Street and 1180 Avenue of the Americas, New York City.

In July 1972, the Company leased certain laboratory facilities and approximately 100 acres of land in Wayne, New Jersey at which it consolidated a number of its research and development operations. A new 80,000 square foot building is being constructed on this property which, upon completion in 1974, will

be used for the Company's general administrative and clerical personnel and for its principal electronic data processing facilities. After completion, the Company will consolidate its New York City office at 140 West 51st Street. The Wayne lease is for a period of 25 years with an option to buy the property at a nominal amount when the lease expires. Annual rentals (the lease is a "net lease" under which the Company is obligated to maintain, repair, insure and pay all taxes on the property) are calculated to allow the lessor to recover the cost of the property, its annual interest costs of 7 $\frac{3}{4}$ % and its other expenses of leasing the property. The cost of the land and existing facilities, refurbishing of existing facilities and construction of the new office building is estimated to be \$12,700,000. The Company believes that the useful life of most of the buildings remaining at the scheduled termination of the lease will be relatively short.

#### Litigation

On April 21, 1971 and May 20, 1971 shareholder derivative actions were commenced by Nina Altman and Bessie N. Shapiro which were subsequently consolidated and are now pending in the Supreme Court of the State of New York for the County of New York. The consolidated action is against certain present and former directors of the Company (the "director defendants"), the Company, and the individuals comprising the slate of directors proposed by the insurgents during the 1971 proxy contest (the "non-director defendants"). Damages are sought from the director defendants for alleged corporate waste by reason of allegedly excessive amounts spent by the Company in the 1971 proxy contest allegedly for purposes unrelated to corporate policies and injunctive relief is sought against the Company preventing it from paying in the future any of the proxy expenses of any of the individual defendants. A companion Altman action against the same former and present directors of the Company and the Company seeking the same relief was commenced in the Delaware Chancery Court in New Castle County on or about September 30, 1971. The Delaware action has been dormant pending the proceedings in the New York litigations.

The director defendants have moved in the New York action for summary judgment in their favor and the attorneys for the plaintiffs have advised the Court that as a result of their examination of the law and investigation of the facts they are unable to oppose the motion. The attorneys for the plaintiffs have also advised the Court that as a result of their activities they have achieved the result they sought by that part of the litigation directed against the non-director defendants, in that on November 1, 1972 a stipulation was entered into on behalf of the parties to the litigation, pursuant to which the non-director defendants and their associates in the 1971 proxy contest agreed not to seek any reimbursement from the Company for any expenses incurred by them in the proxy contest. The plaintiffs agreed to discontinue with prejudice their complaint against the non-director defendants, subject to the approval of the Court, and they have advised the Court that they intend to apply to the Court for an award of \$57,000 for their legal fees, expenses, and disbursements in connection with obtaining by agreement the relief they sought in the litigation with respect to the non-director defendants. By letter agreement dated November 24, 1972, plaintiffs agreed not to seek an award in excess of \$57,000 and the Company and the director defendants agreed not to oppose an application by the plaintiffs for legal fees, expenses, and disbursements in such aggregate amount. The Court has convened a hearing on these matters to be held on May 30, 1974, after notice to all stockholders of record of the Company as of March 4, 1974.

A grand jury sitting in the United States District Court for the District of New Jersey is investigating possible antitrust violations in the dyestuffs industry. In compliance with a subpoena of the grand jury served on February 7, 1973, the Company has provided it with numerous documents relating

to its dyestuffs business and representatives of the Company have testified before the grand jury and otherwise provided information in connection with its investigation. The Company cannot predict the outcome of this investigation at this time.

As of March 4, 1974, the Company was a co-defendant in fifteen lawsuits involving alleged health claims of non-employees relating to the inhalation of asbestos fibers. In the only such lawsuit which has gone to trial, damages were awarded against a number of co-defendants, including the Company. Such decision was affirmed by the United States Court of Appeals for the Fifth Circuit and a motion for rehearing has been filed. In 1971, the Company discontinued the manufacture of Calsilite, a pipe insulation covering, which was the principal insulating material manufactured by the Company containing asbestos fibers. It is anticipated that additional cases may be filed by industrial insulation workers who have been exposed to asbestos dust at numerous construction sites where insulation materials manufactured by the Company and others were used. The Company has insurance coverage with respect to actions of this type. Because premiums paid with regard to such insurance are experience rated, if the Company has an adverse loss experience with respect to such actions, its premiums will be increased to reflect such loss experience. A number of employees and former employees have also filed claims for diseases associated with the inhalation of asbestos fibers under applicable workmen's compensation laws. The Company is self-insured with respect to these claims, a number of which have been settled. The Company does not believe that the disposition of these existing actions (or workmen's compensation claims) will have a material adverse effect on the Company's earnings or financial position, although the effect on the Company of actions of this nature which may be filed in the future cannot be predicted at this time.

There are certain other lawsuits and claims pending against the Company.

The Company believes that the ultimate disposition of these legal proceedings will not materially affect its financial position.

#### DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock, par value \$1.00 per share, and 6,000,000 shares of Preferred Stock, par value \$1.00 per share. On March 4, 1974, 13,763,427 shares of the Company's Common Stock were issued (including 92,149 shares held in treasury) and 3,105,009 shares of the Company's Preferred Stock, designated as its \$1.20 Convertible Preferred Stock (the "Convertible Preferred"), were outstanding.

##### Common Stock

All outstanding shares of Common Stock rank equally as to voting rights, dividends and upon liquidation and are fully paid and nonassessable. The Common Stock is not entitled to any preemptive rights and is not subject to redemption. Except as set forth under "Convertible Preferred—Voting Rights", Common and Convertible Preferred vote together as one class.

Based upon the Company's stock records and upon information furnished to the Company, no person owns of record, or is known by the Company to own beneficially, more than 10% of the Company's Common Stock.

During the period from February 21, 1973 through April 30, 1973, the Company purchased 150,000 shares of its Common Stock for reissuance in connection with the exercise of employee stock options and for sale to employees under the Stock Purchase Plan.

The payment by the Company of dividends, other than dividends payable in the Company's capital stock, is subject to restrictions imposed by certain instruments relating to the Company's long-term debt. Under the most restrictive of these provisions approximately \$207,000,000 of the Company's consolidated retained earnings of \$271,619,000 at December 31, 1973 were not available for dividends. The payment of dividends by the Company on its Common Stock will also be subject to prior payment of cumulative dividends of \$1.20 per share per annum on the Convertible Preferred. Otherwise the Company may pay dividends on its Common Stock out of funds legally available.

#### **\$1.20 Convertible Preferred Stock**

##### ***Dividend and Liquidation Rights***

The holders of the Convertible Preferred are entitled to receive, prior to the payment of dividends on Common Stock, cumulative cash dividends at the rate of \$1.20 per share per annum. Upon any voluntary or involuntary liquidation, dissolution or winding up, before any distribution may be made to the Common stockholders, the holders of the Convertible Preferred shall be entitled to receive \$27.50 per share plus an amount equal to all accrued and unpaid dividends.

##### ***Voting Rights***

Each holder of the Convertible Preferred is entitled to one vote for each share held. Except as set forth below, the Convertible Preferred and Common Stock vote together as one class.

If dividends are in arrears on the Convertible Preferred in an aggregate amount at least equal to six quarterly dividends, the holders of the Convertible Preferred voting as a class will be entitled to elect two directors until all arrears in dividends have been paid and dividends for the current quarterly period have been declared or paid.

The consent of the holders of at least two-thirds of the Convertible Preferred is necessary to authorize, or increase the authorized amount of, any class of stock of the Company ranking prior to the Convertible Preferred as to dividends or assets or to change any of the provisions of the Company's Certificate of Incorporation so as to affect materially any of the powers, preferences and rights of the Convertible Preferred. The consent of the holders of at least the majority of the Convertible Preferred is necessary to increase the authorized number of shares of Preferred Stock or authorize, or increase the authorized number of, shares of stock of equal rank as to dividends or upon liquidation rights.

##### ***Redemption Provisions***

The Convertible Preferred is callable for redemption in whole or in part, at the option of the Company on 30 days' notice, at \$29.50 per share through May 31, 1974, \$29.00 per share thereafter through May 31, 1975, \$28.50 per share thereafter through May 31, 1976, \$28.00 per share thereafter through May 31, 1977 and \$27.50 per share thereafter, plus, in each case, an amount equal to accrued and unpaid dividends to the redemption date.

##### ***Conversion Rights***

Each share of Convertible Preferred is convertible into the Company's Common Stock at the rate of 1.25 shares of Common Stock for each share of Convertible Preferred. The conversion rate is subject to adjustment from time to time upon the occurrence of specified events in order to prevent dilution of the appropriate number of shares of Common Stock to be received upon conversion. No



fractional shares will be issued upon conversion, but any fractions will be adjusted in cash on the basis of market value. No adjustments will be made upon conversion in respect of any accrued but unpaid dividends.

#### **General**

The Convertible Preferred is not liable for further calls or subject to assessment. It has no preemptive or other subscription rights.

Redeemed, purchased or converted shares of Convertible Preferred, other than treasury shares, will have the status of authorized and unissued shares of Preferred Stock.

#### **DESCRIPTION OF STOCK PURCHASE PLAN**

In April 1969 the stockholders of the Company approved the Stock Purchase Plan, under which an aggregate of 650,000 shares of the Company's Common Stock was reserved for sale to designated employees under sixty years of age. The Stock Purchase Plan authorizes the sale of shares subject to prescribed restrictions as to disposition ("Restricted Shares") and without such restrictions ("Unrestricted Shares"). Restricted Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except as provided in the Stock Purchase Plan, for a period of five years from the date of purchase or such further period or periods as may be provided by the Committee of the Board which administers the Plan. If an employee's employment terminates for any reason, other than retirement subsequent to the fifth anniversary of the date of purchase or death subsequent to the completion of five years of continuous employment, the Company, or the subsidiary from which the employee purchased Restricted Shares, has the right to repurchase such shares which still remain subject to restriction at the price which the employee paid for them. Any shares so repurchased may be resold by the Company. Under the terms of the Plan as originally adopted the price of Unrestricted Shares had to be at least 80%, and the price of Restricted Shares had to be at least 20%, of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which an employee was designated as one to whom shares might be offered for sale. Pursuant to a judgment of the U. S. District Court for the Southern District of New York in two shareholder derivative actions which became final on February 5, 1973, the Company was authorized to consummate a settlement approved by the Court which included, among other things, the adoption by the Board of Directors of the Company of a resolution amending the Plan to provide that future sales of Restricted Shares under the Plan shall be at a price of not less than 50% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which an employee is designated as one to whom shares may be offered for sale. The purchase of shares under the Stock Purchase Plan obligates an employee to remain in the employ of the Company or its subsidiaries for not less than two years in the case of employees who purchase Unrestricted Shares and for not less than three years in the case of employees who purchase Restricted Shares.

Pursuant to the Plan, during 1973 the Company sold Restricted Shares to a number of employees, including Mr. Zimmerman (15,000 shares) and all officers and directors as a group (85,000 shares). The purchase price for each such share sold in 1973 was \$5.5625 and, in each such case, the price was not less than 50% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which each employee was

designated as one to whom such shares would be offered for sale. The Company received the entire purchase price of such shares in cash at the time of purchase.

Pursuant to the Plan, prior to 1973 the Company sold Restricted Shares to a number of employees, including Messrs. Werner (62,000 shares), Dalton (25,000 shares) and Miss Moran (10,000 shares) and all officers and directors as a group (122,000 shares). Of the shares presently outstanding from such sales, the Company received, at the time of purchase, a minimum of twenty-five per cent of the purchase price in cash and the balance in six-year promissory notes bearing interest at the rate of six per cent per annum, certain of which require partial prepayments of principal. The promissory notes are secured by pledges of all of the shares purchased. The purchase price for shares of such stock was \$5 $\frac{3}{4}$ , which was at least 20% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which such employee was designated as one to whom such shares would be offered for sale. Except for the notes of Messrs. Werner, Dalton and Miss Moran, which were prepaid in full in May and June of 1971, and the notes of two deceased former employees which have been paid in full, the notes referred to herein are outstanding except with respect to the required prepayments and, in one case, optional prepayment, made thereon.

As of March 4, 1974, 53 employees, including officers and directors, held an aggregate of 282,000 Restricted Shares for which they have paid, to such date, an aggregate of \$1,262,116 in cash and, in addition, have given the Company promissory notes with aggregate outstanding balances on such date of \$274,634. Cash payments of \$853,375 were made at the time of purchase of the Restricted Shares, and at that time \$683,375 aggregate principal amount of promissory notes were given for the balance of the purchase price. These Restricted Shares do not include 4,000 shares held by the estates of two deceased employees, as to which restrictions have been removed. Certain shares so sold (which shares are included in this Prospectus) were not registered under the Securities Act of 1933, as amended, at the time of issuance since their sale did not involve a public offering, as such term is used in Section 4(2) of such Act.

As of March 4, 1974, there were available for sale to employees under the Plan 364,000 additional shares. The Company does not presently intend to sell shares under the Plan on a basis other than receipt of the entire purchase price in cash at the time of purchase.

During 1974 the restrictions on disposition will lapse as to 30,800 Restricted Shares sold to employees in 1969.

#### FINANCIAL STATEMENTS—EXPERTS

The financial statements of the Company included in this Prospectus have been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion appearing herein and have been so included in reliance upon such opinion given upon their authority as experts in accounting and auditing.

#### LEGAL OPINION

The legality of the shares of Common Stock to which this Prospectus relates has been passed upon on behalf of the Company by Messrs. Winthrop, Stimson, Putnam & Roberts, 30 Rockefeller Plaza, New York, New York 10020.

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

### GAF CORPORATION:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1973 and 1972, the related consolidated statements of income, shareholders' equity and changes in financial position for the five years ended December 31, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the five years ended December 31, 1973, in conformity with generally accepted accounting principles which have been applied on a consistent basis, except for the changes (with which we concur) in methods of accounting for an investment in a 49% owned company and the investment tax credit in 1971 and of determining income before extraordinary items with respect to the disposition of certain facilities in 1973, as explained in Notes C, F, 1, and 3 to the consolidated financial statements.

HASKINS & SELLIS

New York, New York  
February 11, 1974

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

**ASSETS**

	December 31,	
	1973	1972
	Dollars in Thousands	
<b>CURRENT ASSETS</b>		
Cash .....	\$ 13,855	\$ 19,498
Marketable securities, at cost which approximates quoted market value .....	195	321
Accounts receivable—trade, less allowance for doubtful accounts—1973, \$2,984,000; 1972, \$2,322,000 .....	150,763	136,729
Accounts receivable—other .....	6,909	5,251
Inventories (Note 1)		
Finished goods .....	85,344	86,871
Work in process .....	36,694	36,359
Raw materials and supplies .....	59,449	48,280
	181,487	171,510
Prepaid expenses .....	8,457	7,004
Total current assets .....	<u>361,666</u>	<u>340,313</u>
<b>PROPERTY, PLANT AND EQUIPMENT AT COST (Notes 1 and 5)</b>		
Land and land improvements .....	15,901	15,457
Buildings and building equipment .....	100,132	106,098
Machinery and equipment .....	244,163	238,517
Construction in progress .....	9,408	11,158
	369,604	371,230
Less accumulated depreciation .....	148,395	145,366
Property, plant and equipment—net .....	<u>221,209</u>	<u>225,864</u>
<b>OTHER ASSETS</b>		
Cost in excess of net assets acquired (Note 1) .....	35,303	35,928
Other assets .....	6,295	6,145
Other investments and advances (Note 3) .....	2,543	2,525
Total other assets .....	<u>44,141</u>	<u>44,598</u>
<b>TOTAL</b> .....	<u>\$627,016</u>	<u>\$610,775</u>

See Notes to Consolidated Financial Statements

**DISCLOSURE<sup>®</sup>**

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS  
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

### LIABILITIES

	December 31,	
	1973	1972
	Dollars in Thousands	
<b>CURRENT LIABILITIES</b>		
Notes payable (Note 7)		
Banks	\$ 2,907	\$ 23,367
Commercial paper	18,850	14,875
Other	3,677	3,000
Accounts payable		
Trade	38,306	35,399
Other	5,543	7,606
Accrued liabilities		
Payroll	4,366	3,603
Retirement plan	4,570	4,404
Other taxes	4,456	3,512
Interest	1,627	1,335
Other	17,192	15,031
United States and foreign income taxes	10,429	8,534
Current portion of long-term debt (Note 7)	893	15,388
Total current liabilities	114,816	132,054
LONG-TERM DEBT LESS CURRENT PORTION (Note 7)	135,716	121,316
<b>DEFERRED CREDITS</b>		
Deferred income taxes (Notes 1 and 6)	27,575	28,997
Deferred investment tax credit (Note 1)	4,889	5,481
Deferred foreign currency translation gains (Notes 1 and 2)	2,155	—
Total deferred credits	34,619	34,478
<b>OTHER LIABILITIES</b>	1,872	1,664
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)</b>		

### SHAREHOLDERS' EQUITY

Preferred Stock, \$1 par value; authorized 6,000,000 shares of \$1.20 convertible series; outstanding—1973, 3,105,009 shares; 1972, 3,104,108 shares; at assigned value of \$1.25 per share (liquidation value 1973, \$85,388,000) (Note 8)	3,881	3,880
Common Stock \$1 par value; authorized 25,000,000 shares; issued—1973, 13,763,427 shares; 1972, 13,762,328 shares (Note 8)	13,763	13,762
Additional paid-in capital	52,053	51,769
Retained earnings (Note 7)	271,619	252,147
Total	341,316	321,558
Less Common Stock held in treasury, at cost—1973, 90,149 shares; 1972, 36,209 shares	1,334	295
Total shareholders' equity	339,982	321,263
<b>TOTAL</b>	<u>\$627,016</u>	<u>\$610,775</u>

See Notes to Consolidated Financial Statements

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year Ended December 31,				
	1973	1972	1971	1970	1969
<b>Funds Provided</b>					
From operations:					
Net income before extraordinary items	\$ 28,924,000	\$ 27,706,000	\$ 21,907,000	\$ 8,391,000	\$ 11,242,166
Charges (credits) not affecting working capital:					
Depreciation	21,200,000	25,400,000	24,550,000	22,023,000	20,794,000
Gain on reacquisition of 5% Convertible Notes (Note G)	(6,359,000)	—	—	—	—
Phase-out of Linden dyestuff manufacturing (Note F)	5,942,000	—	—	—	—
Deferred income taxes (non-current portion)	(1,189,000)	2,847,000	2,462,000	3,902,000	4,468,000
Amortization of deferred investment tax credit	(591,500)	(608,000)	(685,000)	(747,000)	2,147,000
Amortization of deferred charges and other assets	307,000	158,000	240,000	44,000	45,000
Other	3,189,000	2,189,000	1,487,000	1,517,000	934,000
Funds provided from operations exclusive of extraordinary items	53,503,000	57,892,000	49,957,000	35,792,000	41,530,000
Extraordinary items	—	—	(8,433,000)	6,508,000	(4,174,000)
Charges (credits) included in extraordinary items not affecting working capital:					
Net book value of facilities sold	—	—	23,301,000	9,142,000	5,420,000
Deferred income taxes (non-current portion)	—	—	(3,311,000)	(796,000)	(323,000)
Unamortized deferred investment tax credit	—	—	(894,000)	(66,000)	—
Funds provided from extraordinary items	—	—	10,771,000	14,630,000	(477,000)
Funds provided from operations	53,503,000	57,892,000	60,768,000	50,422,000	41,053,000
Issuance of long-term debt	57,530,000	—	13,000,000	1,758,000	40,000,000
Deferred foreign currency translation gains (Note 1)	2,166,000	—	—	—	—
Proceeds from exercise of stock options and sale of restricted stock to key employees	672,000	1,839,000	641,000	21,370	478,000
<b>Total</b>	<b>113,871,000</b>	<b>59,931,000</b>	<b>74,409,000</b>	<b>52,195,000</b>	<b>82,531,000</b>
<b>Funds Applied</b>					
Additions to property, plant and equipment	25,933,000	29,022,000	29,139,000	25,240,000	22,000,000
Reacquisition of \$23,200,000 principal amount of 5% Convertible Notes less gain of \$6,359,000 (Note G)	16,041,000	—	—	—	—
Other reductions in long-term debt	19,930,000	16,161,000	13,123,000	9,840,000	9,370,000
Cash dividends	9,452,000	9,231,000	9,306,000	9,228,000	9,388,000
Acquisition of treasury stock	2,434,000	468,000	54,000	70,000	—
Net assets, excluding working capital of businesses purchased	—	—	16,513,000	622,000	7,800,000
Acquisition cost carried as investment at December 31, 1969	—	—	—	(1,803,000)	1,805,000
Other	690,000	824,000	2,557,000	1,300,000	1,330,000
<b>Total</b>	<b>75,280,000</b>	<b>55,906,000</b>	<b>78,438,000</b>	<b>44,429,000</b>	<b>57,634,000</b>
Increase (Decrease) in Working Capital (including \$545,000 in 1971, \$1,395,000 in 1970 and \$1,196,000 in 1969 arising from purchases of businesses)	38,591,000	1,025,000	(3,029,000)	7,763,000	40,897,000
Working Capital, January 1	208,279,000	205,234,000	205,371,000	197,951,000	154,254,000
Working Capital, December 31	<b>\$246,870,000</b>	<b>\$206,259,000</b>	<b>\$202,342,000</b>	<b>\$205,714,000</b>	<b>\$195,151,000</b>

(Continued on next page)

**CAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION--(Continued)**

**ANALYSIS OF CHANGES IN WORKING CAPITAL**

	Year Ended December 31,				
	1988	1987	1986	1985	1984
<b>Increase (Decrease) in current assets</b>					
Cash	\$ (1,642,000)	\$ 2,400,000	\$ 1,807,000	\$ (1,252,000)	\$ (1,577,000)
Accounts receivable--trade	14,984,000	11,900,000	12,775,000	1,882,000	11,512,000
Accounts receivable--other	1,000,000	(1,700,000)	1,700,000	2,940,000	2,722,000
Inventory	4,977,000	7,100,000	9,400,000	(5,871,000)	15,200,000
Other	1,127,000	(2,400,000)	2,112,000	(2,400,000)	7,700,000
	<u>17,551,000</u>	<u>7,300,000</u>	<u>26,284,000</u>	<u>(7,682,000)</u>	<u>26,611,000</u>
<b>Increase (Decrease) in current liabilities</b>					
Notes payable	(11,000,000)	39,400,000	6,300,000	(11,000,000)	(10,400,000)
Accounts payable	4,800,000	1,167,000	2,795,000	(4,100,000)	4,800,000
Accrued liabilities	4,700,000	1,881,000	7,341,000	(1,303,000)	5,152,000
United States and foreign income taxes	1,000,000	(1,712,000)	7,400,000	4,470,000	(11,012,000)
Current portion of long-term debt	(14,000,000)	(2,829,000)	5,790,000	1,077,000	1,757,000
	<u>(17,200,000)</u>	<u>14,806,000</u>	<u>26,297,000</u>	<u>(15,906,000)</u>	<u>(11,002,000)</u>
<b>Increase (Decrease) in working capital</b>	<u>\$ 31,351,000</u>	<u>\$ 2,496,000</u>	<u>\$ (1,013,000)</u>	<u>\$ 7,224,000</u>	<u>\$ 41,005,000</u>

See Notes to Consolidated Financial Statements

Alphabetic order references are to the Notes to Consolidated Statement of Income included elsewhere in this Prospectus

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

For the Five Years Ended December 31, 1973

	Preferred Stock		Common Stock \$1 Par Value Number of Shares Issued	Additional Paid-in Capital	Retained Earnings	Treasury Stock	
	Number of Shares Outstanding	Assigned Value				Number of Common Shares	Cost
Balance, January 1, 1969 .....	3,155,882	\$3,945,000	13,360,934	\$48,048,000	\$221,095,000	—	\$ —
Net income .....					11,068,000		
Cash dividends:							
Preferred stock—\$1.20 per share .....					(3,793,000)		
Common stock—\$.40 per share .....					(5,395,000)		
Stock options exercised .....	6,372	8,000	2,800	169,000			
Issuance of shares under incentive compensation plan .....	17		13,200	352,000			
Issuance of restricted shares of common stock under Stock Purchase Plan (Note 9) .....			209,000	914,000			
Conversion of preferred stock .....	(557)	(1,000)	694				
Amortization of excess of quoted market value over aggregate sales price for shares of re- stricted common stock sold to key employees (Note 9) .....				157,000			
Balance, December 31, 1969 .....	3,161,714	3,952,000	13,586,628	49,640,000	222,975,000	—	—
Net income .....					14,693,000		
Cash dividends:							
Preferred stock—\$1.20 per share .....					(3,795,000)		
Common stock—\$.40 per share .....					(5,433,000)		
Stock options exercised .....	1,150	1,000		20,000			
Issuance of shares under incentive compensa- tion plan .....	207	1,000	12,200	161,000			
Purchase of treasury shares .....						11,000	59,000
Sale of treasury shares .....						(6,000)	(32,000)
Amortization of excess of quoted market value over aggregate sales price for shares of re- stricted common stock sold to key employees (Note 9) .....				237,000			
Balance, December 31, 1970 as originally reported	3,163,071	3,954,000	13,598,828	50,058,000	228,440,000	5,000	27,000
Adjustment to change to equity method of ac- counting for investment in a 49% owned company (Note 3) .....					1,004,000		
Balance, December 31, 1970 as restated .....	3,163,071	3,954,000	13,598,828	50,058,000	229,444,000	5,000	27,000
Net income (Notes C and E) .....					13,474,000		
Cash dividends:							
Preferred stock—\$1.20 per share .....					(3,802,000)		
Common stock—\$.40 per share .....					(5,444,000)		
Stock options exercised .....	7,840	9,000	3,700	172,000			
Issuance of shares under incentive compensation plan .....	243			5,000			
Issuance of restricted shares of common stock under Stock Purchase Plan (Note 9) .....			14,000	61,000			
Conversion of preferred stock .....	(1,050)	(1,000)	1,312				
Purchase of treasury shares .....						10,000	54,000
Sale of treasury shares .....						(5,000)	(27,000)
Amortization of excess of quoted market value over aggregate sales price for shares of re- stricted common stock sold to key employees (Note 9) .....				254,000			
Balance, December 31, 1971 .....	3,170,104	\$3,962,000	13,617,840	\$50,550,000	\$233,672,000	10,000	\$54,000

(Consolidated Statement of Shareholders' Equity continued on following page.)



**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY—(Continued)**  
**For the Five Years Ended December 31, 1973**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	
	Number of Shares Outstanding	Assigned Value	Number of Shares Issued	\$1 Par Value			Number of Common Shares	Cost
Balance, December 31, 1971 .....	3,170,104	\$3,962,000	13,617,840	\$50,550,000	\$233,672,000	10,000		\$54,000
Net income .....						27,706,000		
Cash dividends:								
Preferred stock—\$1.20 per share .....						(3,759,000)		
Common stock—\$.40 per share .....						(5,472,000)		
Stock options exercised .....	2,815	4,000	57,750	977,000				
Issuance of shares under incentive compensa- tion plan .....	582	1,000		13,000				
Conversion of preferred stock .....	(69,393)	(87,000)	86,738					
Purchase of treasury shares .....							43,500	668,000
Issuance of treasury shares in connection with an acquisition .....							(17,291)	(427,000)
Amortization of excess of quoted market value over aggregate sales price for shares of re- stricted common stock sold to key employees (Note 9) .....					180,000			
Other .....					49,000			
Balance, December 31, 1972 .....	3,104,108	3,880,000	13,762,328	51,769,000	252,147,000		36,209	295,000
Net income .....						28,924,000		
Cash dividends:								
Preferred stock—\$1.20 per share .....						(3,726,000)		
Common stock—\$.42 per share .....						(5,726,000)		
Stock options exercised .....			1,000	9,000				
Issuance of shares under incentive compensation plan .....	981	1,000		21,000				
Conversion of preferred stock .....	(80)		100					
Purchase of treasury shares .....							173,000	2,434,000
Issuance of treasury shares in connection with sales under the Stock Purchase Plan .....					(732,000)		(119,000)	(1,394,000)
Issuance of treasury shares in connection with a prior acquisition .....					1,000		(60)	(1,000)
Amortization of excess of quoted market value over aggregate sales price for shares of re- stricted common stock sold to key employees (Note 9) .....					985,000			
Balance, December 31, 1973 .....	<u>3,105,009</u>	<u>\$3,881,000</u>	<u>13,763,428</u>	<u>\$52,053,000</u>	<u>\$271,619,000</u>		<u>90,149</u>	<u>\$1,334,000</u>

See Notes to Consolidated Financial Statements

**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Alphabetic note references are to Notes to the Consolidated Statement of  
Income included elsewhere in this Prospectus)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements.

*Translation of Foreign Currencies*—Current assets and current liabilities of foreign subsidiaries and long-term foreign obligations are translated into U.S. dollars at year-end exchange rates, other assets and liabilities and depreciation at historical dollar values and other operating accounts generally at average exchange rates for the year.

Prior to 1973, foreign exchange gains and losses were included in income. In 1973, however, the Company modified this policy in response to major and unprecedented changes in the international monetary markets (including, among other conditions, the floating, without limitation, of major international currencies). Under the modified policy, cumulative foreign translation gains are deferred to the extent they exceed translation losses previously charged to income. Foreign translation losses will be charged to income currently to the extent they exceed net translation gains previously deferred.

*Inventories*—Inventories are valued at the lower of cost (principally average) or market.

*Property, Plant and Equipment, and Related Depreciation*—Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the remaining estimated economic lives of the related assets. The cost and related accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts and any resultant gain or loss is included in income currently.

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. These lives are subject to annual review and revision to assure that the cost of the related assets is written off over their economic lives.

*Cost in Excess of Net Assets Acquired*—Cost in excess of net assets acquired which arose in connection with acquisitions prior to November 1, 1970 is not being amortized to the extent that there is no diminution in value; such cost relating to acquisitions made subsequent to October 31, 1970, all of which have continuing value, is being amortized on the straight-line method over a period of forty years.

*Income Taxes*—The tax effects of transactions are recognized in the year in which the transactions enter into the determination of net income regardless of when they are recognized for tax purposes. The resulting deferred income taxes arise from reporting certain income and expense items, principally depreciation, and the disposition of plant facilities, for financial statement purposes in periods different from those in which such amounts are reported for United States income tax purposes.

*Investment Tax Credit*—The Company accounts for investment tax credits arising since January 1, 1971 as a deduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Research and Development Costs**—Expenditures for research and development are charged to income as incurred.

**Retirement Plans**—The Company and its subsidiaries have several retirement plans covering substantially all employees. The Company's policy is to fund amounts equal to pension cost accrued and, for plans with prior service costs, to amortize such costs over periods not to exceed forty years.

**Earnings Per Share**—Primary earnings per common share are computed by dividing net income less preferred stock dividend requirements by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that the convertible securities outstanding at the end of the year had been converted into shares of common stock at the beginning of the year, and that conversions occurring during the year had occurred at the beginning of the year. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

### NOTE 2. FOREIGN OPERATIONS

The consolidated balance sheet includes the following amounts with respect to foreign subsidiaries (all of which are wholly-owned):

	1973	1972
	Dollars in Thousands	
Current assets .....	\$53,976	\$42,001
Other assets .....	9,993	12,571
Total assets .....	63,969	54,572
Current liabilities .....	21,321	20,162
Other liabilities .....	5,863	2,629
Total liabilities .....	27,184	22,791
Net assets .....	\$36,785	\$31,781

The consolidated statement of income includes the following amounts with respect to foreign subsidiaries:

	Year Ended December 31,				
	1973	1972	1971	1970	1969
	Dollars in Thousands				
Net Sales .....	\$106,414	\$78,849	\$64,364	\$61,239	\$43,256
Income before extraordinary items .....	5,882	2,576	3,126	2,051	1,224
Extraordinary credits .....	—	—	1,153	3,923	—
Net income .....	\$ 5,882	\$ 2,576	\$ 4,279	\$ 5,974	\$ 1,224

**GAF CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In 1973, the Company had a \$2,166,000 unrealized foreign currency exchange gain including \$225,000 of unrealized gains at December 31, 1973 on forward exchange contracts. Unrealized foreign currency exchange losses for 1972, amounting to \$447,000, were charged to income in 1972 and the net gain for 1971, amounting to \$992,000, was treated as an extraordinary credit.

**NOTE 3. ACQUISITIONS**

In March 1971, the Company acquired certain photofinishing plants and the business and assets relating thereto for a net cash purchase price of approximately \$15,200,000. The results of operations of the acquired business, which did not significantly affect consolidated revenues or net income for 1971, have been included in the consolidated financial statements from the date of acquisition.

In 1972, the Company completed studies (including independent appraisals) to determine the fair value of certain assets included in 1971 acquisitions and recorded at that time at tentative values. As a result of these studies certain reallocations, which did not have a significant effect on the consolidated financial statements, of these tentative values were made.

The Company's ownership of an Australian subsidiary, GAF (Australasia) Pty. Limited (formerly Consolidated Reprographics, Ltd.), was increased to 100% at December 31, 1972 through cash purchases of this subsidiary's shares of capital stock from minority shareholders amounting to approximately \$156,000 in 1972 and \$1,479,000 in 1971.

The Company has a 49% interest in Chemical Developments of Canada, Limited (CDCL) which was acquired when that company was formed in 1949. Prior to 1971 this investment was included in other investments and advances at a nominal value, and dividends paid by CDCL were included in other income as received. During 1971 the Company adopted the equity method of accounting for the investment in CDCL. The resulting adjustment, consisting of \$466,000 representing the excess of cost over carrying value of the investment and \$538,000 representing the Company's equity in undistributed earnings for the period from 1949 to December 31, 1970, has been included in other investments and advances with an offsetting credit to retained earnings as of December 31, 1970. The Consolidated Statement of Income for years prior to 1971 was not restated to include therein the portion of the adjustment applicable to those years since the amount thereof was not material (Note A).

**NOTE 4. INVENTORIES**

The following inventory amounts were used in computing cost of products sold:

	December 31,					
	1973	1972	1971	1970	1969	1968
	Dollars in Thousands					
Finished goods .....	\$ 85,344	\$ 86,871	\$ 78,405	\$ 73,203	\$ 76,304	\$ 67,988
Work in process .....	36,694	36,359	33,368	33,755	35,004	31,999
Raw materials and supplies ....	59,449	48,280	44,631	39,948	40,919	36,945
Total .....	<u>\$181,487</u>	<u>\$171,510</u>	<u>\$156,404</u>	<u>\$146,906</u>	<u>\$152,227</u>	<u>\$136,932</u>

**GAF CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

The ranges of annual depreciation rates generally were as follows:

Land improvements .....	2% -10%
Building and building equipment .....	1½%-10%
Machinery and equipment .....	3% -40%

**NOTE 6. INCOME TAXES**

Provision has not been made for income taxes on unremitted earnings of foreign subsidiaries, since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary, aggregating \$2,997,000 through December 31, 1973, because the Company intends to postpone indefinitely the remittance of such earnings.

During 1973 the Company settled the open matters relating to the 1967 through 1969 United States income tax returns with the Internal Revenue Service; adequate provision had been made for such settlements in prior years.

The principal sources of United States deferred taxes are:

	1973	1972
	Dollars in Thousands	
Excess of tax over book depreciation .....	\$2,451	\$2,070
Reversal of reserve from prior year .....	215	—
1971 book provision for disposal of certain plant facilities taken as tax expense in 1972 .....	—	5,038
Excess of book over tax basis of assets written off in connection with phase out of Linden dyestuff and pigment operations and book reserves established in connection therewith .....	(1,284)	—
Amortization of excess of market value over sales price for stock issued under the Company's Stock Purchase Plan .....	(473)	(86)
Reserve for self-insurance .....	(125)	(116)
Recapture of investment tax credit .....	—	(793)
Other, net .....	44	(90)
	<u>\$ 828</u>	<u>\$6,023</u>

**GAF CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Total income tax expense in 1973 amounted to \$23,128,000 (an effective rate of 44.4%), a total less than the amount of \$24,985,000 computed by applying the United States income tax rate of 48% to income before tax. The reasons for this difference are as follows:

	Dollars in Thousands	% of Pretax Income
Tax expense computed at statutory rate .....	\$24,985	48.0%
Increases (decreases) in taxes resulting from:		
United States 1973 investment tax credit of \$1,399,000 and amortization of deferred United States investment tax credit arising prior to 1971 of \$591,000 .....	(1,990)	(3.8)
State and local income taxes, net of United States income tax benefit .....	1,331	2.5
Other .....	(1,198)	(2.3)
Actual tax expense .....	<u>\$23,128</u>	<u>44.4%</u>

**NOTE 7. LONG-TERM DEBT AND DIVIDEND RESTRICTIONS**

Long-term debt at December 31, 1973 and 1972 was as follows:

	1973	1972
	Dollars in Thousands	Dollars in Thousands
Term loans repaid during 1973 .....	\$ —	\$ 30,000
6½% Swiss Franc Notes due October 1, 1976 translated at year-end exchange rate .....	15,395	—
Promissory Notes due May 15, 1980 .....	24,000	—
5¾% Convertible Subordinated Notes due April 1, 1983 with annual repayments of \$200,000 on each April 1 through 1982 and balance of \$1,800,000 payable April 1, 1983 .....	3,600	3,800
5% Convertible Subordinated Notes due April 1, 1994 with annual repayments beginning April 1, 1992 .....	26,700	49,900
5¾% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of \$2,500,000 on each December 1, less \$3,153,000 and \$1,970,000 in treasury in 1973 and 1972, respectively .....	41,847	45,530
Other notes, which bear interest at 3¾% to 9% and mature at various dates to 1986 .....	25,067	7,474
Total .....	<u>136,609</u>	<u>136,704</u>
Less portion due within one year .....	893	15,388
Long-term debt, less current portion .....	<u>\$135,716</u>	<u>\$121,316</u>

The Promissory Notes due May 15, 1980 were issued pursuant to a loan agreement with a group of banks on May 15, 1973. Each Note bears interest at 118% of the prime commercial lending rate through May 15, 1975; 122% of such rate through May 15, 1978; and 128% of such rate thereafter. Outstanding borrowings at December 31, 1975 are repayable in quarterly installments commencing in 1976.

**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The 5½% Convertible Subordinated Notes are convertible into shares of Common Stock, at any time prior to April 2, 1976, at a conversion price of \$28.72 per share (subject to anti-dilution adjustments in specified circumstances).

The 5% Convertible Subordinated Notes are convertible into shares of Common Stock, at any time, at a conversion price of \$27.50 per share (subject to anti-dilution adjustments in specified circumstances). See Note G to Notes to Consolidated Statement of Income.

The total amount of long-term debt maturing in the second year subsequent to December 31, 1973 is \$6,207,000, in the third year \$26,743,000, in the fourth year \$10,470,000 and in the fifth year \$11,680,000. The 5½% Sinking Fund Debentures held in treasury may be used to reduce the amount of the annual sinking fund payments. None of the long-term debt is pledged, held by or for the account of the Company, or held in sinking or other special funds, except for \$3,153,000 and \$1,970,000 of the 5½% Sinking Fund Debentures held in treasury at December 31, 1973 and December 31, 1972, respectively.

At December 31, 1973 the Company had a \$49,000,000 line of credit, with interest at the prime commercial lending rate. Pursuant to the informal arrangements under which the line of credit was established, compensating balances are generally required to equal 20% of the outstanding borrowings and 10% of the unused portion of the revolving line of credit. No portion of this line of credit was being used at December 31, 1973 and the compensating balance amounted to approximately \$4,900,000.

Dividends are restricted under the provisions of certain loan agreements. Under the most restrictive of these provisions, approximately \$207,000,000 of the consolidated retained earnings of \$271,619,000 at December 31, 1973 were not available for dividends.

The average interest rate for short-term borrowings at December 31, 1973 was approximately 9¾% and the maximum amount of such borrowings outstanding at any month end during 1973 amounted to approximately \$70,000,000. The average short-term borrowings outstanding during the year were approximately \$40,000,000 and the approximate weighted average interest rate on such borrowings was 7½%; such average borrowings and interest rates were computed based upon the borrowings outstanding at each month-end.

**NOTE 8. CAPITAL STOCK**

The \$1.20 Convertible Preferred Stock, dividends on which are cumulative, is convertible, at any time, into Common Stock at the rate of 1¼ shares of Common Stock for each share of Preferred. The Company may redeem the Preferred Stock at specified prices ranging from \$29.50 per share through May 31, 1974 to \$27.50 per share after May 31, 1977.

The voluntary or involuntary liquidation value of the 3,105,009 outstanding shares of \$1.20 Convertible Preferred Stock at December 31, 1973, aggregating \$85,388,000, exceeds the assigned value by \$26.25 per share, or a total of \$81,506,000. In the opinion of counsel for the Company, retained earnings are not restricted as to payment of dividends on Common Stock by reason of the liquidation preferences of the \$1.20 Convertible Preferred Stock.

**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The number of shares of the Company's capital stock reserved for issuance at December 31, 1973 and 1972 were as follows:

	1973	1972
<b>\$1.20 Convertible Preferred Stock:</b>		
Reserved for payment of deferred stock awards under incentive compensation plan .....	2,148	3,129
<b>Common Stock:</b>		
Reserved for conversion of \$1.20 Convertible Preferred Stock, including 2,685 and 3,911 shares, respectively, for deferred stock awards .....	3,883,946	3,884,046
Reserved for exercise of stock options .....	509,750	510,750
Reserved for conversion of 5½% Convertible Subordinated Notes	125,348	132,312
Reserved for conversion of 5% Convertible Subordinated Notes	970,909	1,814,546
Reserved for sale under the Stock Purchase Plan .....	362,000	458,000
<b>Total .....</b>	<b>5,851,953</b>	<b>6,799,654</b>

None of the shares outstanding is held by or for the account of the issuer thereof and no shares, other than stated above, are reserved for officers and employees or for options, warrants, conversions, or other rights.

**NOTE 9. STOCK OPTION AND STOCK PURCHASE PLANS**

Under the provisions of the Company's 1965 qualified stock option plan, options to purchase shares of Common Stock may be granted to key employees during a ten-year period ending March 31, 1975. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant.

Options outstanding by year of grant at December 31, 1973 and 1972 were as follows:

Year of Grant	Option Price Per Share	1973		1972	
		Number of Shares	Total Option Price	Number of Shares	Total Option Price
1968 .....	\$22.190 - 25.375	—	\$ —	84,000	\$1,965,000
1969 .....	17.313	19,350	335,000	22,350	388,000
1970 .....	10.1875- 11.000	9,800	101,000	11,800	120,000
1972 .....	20.875 - 23.375	68,000	1,445,000	72,750	1,544,000
1973 .....	12.687	78,250	993,000	—	—
		<b>175,400</b>	<b>\$2,874,000</b>	<b>190,900</b>	<b>\$4,017,000</b>



**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

At December 31, 1973 and 1972 there were 334,350 and 319,850 shares, respectively, reserved for the granting of additional options.

Options became exercisable as follows:

Year Exercisable	Number of Shares	Option Price		Market Price on Date First Exercisable	
		Per Share	Total	Per Share	Total
1969 .....	169,500	\$22.19 - 25.375	\$3,965,000	\$17.875- 28.812	\$4,184,000
1970 .....	50,500	17.313	874,000	10.062	508,000
1971 .....	31,000	10.1875- 11.00	319,000	19.687- 19.937	611,000
1972 .....	—	—	—	—	—
1973 .....	68,000	20.875 - 23.375	1,445,000	10.937- 11.562	750,000

Common Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1969 .....	2,800	\$22.19 - 25.375	\$ 66,000	\$28.25 - 30.00	\$ 82,000
1970 .....	—	—	—	—	—
1971 .....	3,700	10.1875- 17.313	45,000	19.75 - 24.625	80,000
1972 .....	57,750	10.1875- 25.375	997,000	21.125- 27.00	1,434,000
1973 .....	1,000	10.1875	10,000	14.812- 21.1875	18,000

Options for 97,150 and 118,150 shares, having an aggregate option price of \$1,881,000 and \$2,473,000, respectively, were exercisable at December 31, 1973 and 1972, respectively.

\$1.20 Convertible Preferred Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1969 .....	6,372	\$13.50 - 20.00	\$ 114,000	\$32.50 - 41.00	\$ 237,000
1970 .....	1,150	13.50 - 19.375	21,000	20.125- 24.00	\$ 27,000
1971 .....	7,840	13.50 - 18.375	140,000	21.00 - 30.75	176,000
1972 .....	2,815	13.50 - 17.75	42,000	28.125- 32.00	86,000
1973 .....	—	—	—	—	—

The proceeds from stock options exercised were credited to the Preferred and Common Stock accounts in the amount of the assigned or par values of the respective shares issued, and the excess was credited to additional paid-in capital.

Under the provisions of the Company's 1969 Restricted and Unrestricted Stock Purchase Plan, 650,000 shares of Common Stock may be sold to key employees. The Stock Purchase Plan as originally adopted provided that restricted and unrestricted shares may be sold at prices which are not less than 20% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered for sale. The minimum purchase price of restricted shares under the Stock Purchase Plan was raised from 20% to 50% of such market price in accordance with a court-approved settlement terminating certain shareholders' derivative litigation. The excess of quoted market value over the aggregate sales price for restricted shares sold is being amortized by charges to income over the restriction period. The unamortized balance to be amortized through the period ending

**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

October 12, 1982 amounted to \$2,302,000 and \$2,918,000 at December 31, 1973 and 1972, respectively. Under certain conditions, the Company has the right to repurchase restricted shares of Common Stock at the original selling price. These repurchased shares are held in treasury.

**NOTE 10. RETIREMENT PLANS**

The following is a summary of pension costs:

<u>Year</u>	<u>Amount</u>
1973 .....	\$6,777,000
1972 .....	5,961,000
1971 .....	5,539,000
1970 .....	3,667,000
1969 .....	3,287,000

The actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension cost by \$22,566,000 and \$13,612,000 at December 31, 1973 and 1972, respectively. The estimated unfunded prior service cost at December 31, 1973 was \$25,314,000.

**NOTE 11. EXECUTIVE INCENTIVE COMPENSATION**

The Company has an Executive Incentive Compensation Plan that provides for bonuses to key executives of the Company based on consolidated net income (as defined). The provision for such bonuses was as follows:

<u>Year</u>	<u>Amount</u>
1973 .....	\$1,754,000
1972 .....	1,624,000
1971 .....	1,265,000
1970 .....	—
1969 .....	801,000

**NOTE 12. SUPPLEMENTARY INCOME STATEMENT INFORMATION**

The following table summarizes supplementary income statement information for the five years ended December 31, 1973:

	<u>Charged to Costs and Expenses For the Year Ended December 31,</u>				
	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
Maintenance and repairs .....	\$36,079,000	\$34,059,000	\$33,823,000	\$30,889,000	\$31,147,000
Depreciation of property, plant and equipment .....	23,200,000	25,400,000	24,550,000	22,023,000	20,704,000
Taxes, other than taxes on income:					
Social Security and unemployment .....	14,521,000	12,475,000	9,385,000	7,675,000	7,351,000
Other .....	7,430,000	7,173,000	6,650,000	6,539,000	6,246,000
Rents .....	14,092,000	13,283,000	12,022,000	11,296,000	8,136,000

**GAF CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 13. COMMITMENTS AND CONTINGENT LIABILITIES**

The Company is obligated under various long-term, noncancellable leases at December 31, 1973 as follows:

	<u>Aggregate Rental By Period</u> Dollars in Thousands			
	<u>Land and Land Improvements</u>	<u>Buildings and Building Equipment</u>	<u>Machinery and Equipment</u>	<u>Total</u>
1974 .....	\$ 73	\$ 5,305	\$2,440	\$ 7,818
1975 .....	67	4,633	1,920	6,620
1976 .....	35	4,363	1,441	5,839
1977 .....	31	4,250	842	5,123
1978 .....	31	4,154	470	4,655
1979-1983 .....	178	19,581	631	20,390
1984-1988 .....	178	10,381	28	10,587
1989-1993 .....	7	7,364	—	7,371
Beyond 1993 .....	—	4,685	—	4,685

The above amounts are for existing leases and do not represent a forecast of future expense.

The Company has financing leases as defined by the Securities and Exchange Commission. The present value of commitments applicable to these leases is less than five percent of the sum of long-term debt, shareholders' equity and the present value of such leases. The impact on 1973 net income which would have resulted if these leases were capitalized is less than three percent of average net income for the years 1971 to 1973.

The Company had commitments of approximately \$15,066,000 at December 31, 1973 for the acquisition of property, plant and equipment.

During 1973 the Cost of Living Council found that the Company engaged in no violation of the "base period profit margin" test under Phase II of the Government's Economic Stabilization Program thereby eliminating the contingent liability previously reported.

At December 31, 1973, there were certain lawsuits and claims pending against the Company. In the opinion of management, the ultimate disposition of these matters will not materially affect the Company's consolidated financial position.

END